Pathways to Attract and Retain Top Advisors

The four ways leading broker-dealers leverage new technologies to gain an advantage.

Ready for Next

New regulations, dynamic market conditions and changing advisor demographics are putting pressure on broker-dealers to find new ways to attract and retain top advisor talent. Advisors worry they lack meaningful data insight to make business critical decisions, and are not satisfied when inefficient workflows hamper productivity.

Broker-dealers are looking to data management and technology solutions to provide advisors with the resources they need. Market leaders are finding that a smarter approach to compensation management and data aggregation provides a significant advantage.

This white paper explores four key ways broker-dealers are working to promote advisor satisfaction and how the right compensation management solution can make a difference.

MASSIVE CHANGES CONFRONT THE WEALTH MANAGEMENT INDUSTRY

Rapidly changing conditions have put tremendous pressure on advisors to adjust and adapt across a variety of fronts. The drivers of change are interrelated in important ways, and understanding these relationships is key.

DEMANDS FOR GREATER TRANSPARENCY

Retail investors continue to demand greater transparency. They want broker-dealers to disclose cash and non-cash compensation, as well as material conflicts of interest. The SEC's Regulation Best Interest (Reg BI) rulemaking package and various fiduciary rules set out by the Canadian Securities Administrators (CSA) codify the direction in which the industry is already moving.

For instance, Reg BI establishes a "best interest" standard of care that must be adhered to when recommending any securities transaction or investment strategy involving securities to a retail customer. It also requires broker-dealers and registered representatives to provide a brief relationship summary (Form CRS) and other disclosures to retail investors. In light of investor sentiment and new fiduciary rules, broker-dealers must discern and disclose potential conflicts of interest and increase transparency overall.

EVOLVING ADVISOR COMPENSATION ARRANGEMENTS

Many advisors believe the best way to achieve transparency is to move to a fee-only compensation model, and many investors investors similarly favor that approach. However, the reality is that not all products accommodate a fee-based model. In fact, entire asset classes, such as annuities or alternative investment products, don't lend themselves easily to a fee-based program without complex engineering of accounts.

At the same time, changing advisor demographics are shifting compensation structures. Younger advisors tend to prefer simpler compensation models, with more regular payouts and immediate access to earned compensation. They may well imagine paying for their morning coffee with an application that debits their accrued, yet unpaid commission. In addition, as Boomer advisors prepare for retirement, they look for ways to monetize the equity in their practice through compensation as part of the strategic succession process.

Regulatory assets under management (RAUM) rose to $83.7 trillion in 2019, a one-year increase of approximately 1.4 percent. 95.5 percent of investment advisor firms charged AUM-based fees in 2019, while the number of firms charging commissions dropped to 3.2 percent of all advisors[1].

EMERGING TECHNOLOGIES

Perhaps there's no bigger disruption to the industry than the rise of the robo-advisor, which uses artificial intelligence to automate many of the processes traditionally assigned to human advisors. A research report from Business Insider Intelligence predicts that robo-advisors will manage approximately $4.6 trillion by 2022[2]. The U.S. is the world leader in robo-advice, with more than 200 robo-advisors[3].

Accessible and streamlined platforms make it much easier for the average investor to conduct in-depth research and relatively sophisticated analyses. Together, these new technologies promote greater fee and compensation transparency, driving fee compression. And robo-advising, in particular, makes it difficult for traditional advisors to justify high management fees and commissions.

[1] 2019 Evolution Revolution: A Profile of the Investment Adviser Profession, The Investment Adviser Association and NRS, 2019

[2] The Future of Wealthtech, Forbes, Feb 19, 2019 https://www.forbes.com/sites/margueritacheng/2019/02/19/the-future-of-wealthtech/#41c79f3635e6

[3] The US still has the robo-advisor lead, Business Insider Intelligence, https://www.businessinsider.com/the-us-still-has-the-robo-advisor-lead-2017-4?r=DE&IR=T?r=US&IR=T

ADVISORS REPORT INCREASING DISSATISFACTION

Competition is intense. Given fee-leveling and fee-compression trends, advisors are under enormous pressure to bring new assets under management. Lower commissions and tighter margins make the profession far less compelling than it used to be. Across the industry, advisor churn is climbing, head counts are declining and advisor loyalty is waning. A 2019 study by Fidelity Clearing & Custody Solutions found that only 40% of advisors were satisfied with their current firm[4].

Nearly 17% of employee advisors indicate an inclination to leave their firm[5].

Dissatisfaction is partly a consequence of market trends outside of broker-dealer control. But other challenges can be more directly addressed.

INEFFICIENT WORKFLOWS

In our experience, many advisors report that they spend too much time and too many resources on back-end processes, compliance, record-keeping, commission tracking and other day-to-day operations. Outdated legacy systems are often slow and inefficient. Responsive broker-dealers are at great pains to introduce new systems to improve workflow efficiency and up the productivity of their advisors. Unfortunately, ad-hoc solutions are often incompatible with existing business ecosystems, which only compounds the problem. For young advisors, especially, having the most up-to-date and sophisticated technological tools is non-negotiable and is a major consideration when they are choosing broker-dealers with whom to affiliate. For most advisors, time spent on anything other than efficiently servicing existing client needs, marketing and prospecting for new leads is time lost. And in today's climate, advisors have no time to lose.

BROKER-DEALERS STRUGGLE TO DELIVER DIFFERENTIATED SUPPORT FOR ADVISORS IN THE FIELD

Most broker-dealers recognize that their number one responsibility is to cultivate and retain top advisor talent. Broker-dealers, accordingly, work hard to find the resources needed to support early-career advisors through mentoring, training and continuing education programs. At the same time, broker-dealers consistently look for ways to support seasoned veterans, aiming to provide marketing support and provide the optimum product mix to increase margins and boost asset acquisition. Unfortunately, despite vigorous effort, many broker-dealers recognize they nevertheless have a long way to go. They know that providing a robust advisor support infrastructure can make all the difference, but they struggle to effectively target limited resources where they are needed most. In short, broker-dealers want to provide support, but they don't always have the insight they need to discover where to direct resources.

ADVISORS REPORT LACKING THE DATA INSIGHT NEEDED TO MAKE BUSINESS-CRITICAL DECISIONS

Many advisors report a phenomenon called 'data inundation.' Advisors describe the presence of an endless mountain of available data, but no way to access it efficiently or achieve meaningful insight. The key problem is that data sources are disparate, which contributes to data fragmentation and an incomplete view of clients and their portfolio. Often, advisors scramble to assemble data on their own, manually stitching together a picture from an array of different resources. Consequently, data inundation promotes inaccuracy and error. Advisors don't have the insight they need to make decisions about marketing, asset allocation and how to most effectively support their customers.

[4] Retaining is the New Recruiting, Fidelity Clearing & Custody Solutions, 2019
[5] http://www.jdpower.com/resource/us-financial-advisor-satisfaction-study

SMART BROKER-DEALERS ARE LOOKING TO INTEGRATED DATA AGGREGATION AND COMPENSATION MANAGEMENT TO SUPPORT THEIR GOALS

Given the turbulence across the industry, along with increasing advisor dissatisfaction, it's become immensely difficult for broker-dealers to attract new talent and retain their top performers. As broker-dealers look for ways to support advisors and improve their productivity, they are finding that new technologies have the potential to make a big difference. Among other solutions, integrated data aggregation and advisor compensation management solutions solve key challenges in unique ways.

Gone are the days where compensation solutions represent mere commission calculators. Today's end-to-end solutions provide the automation and streamlined workflows needed to achieve more. Integrated data aggregation enables more effective compensation tracking and provides greater visibility into held-away assets, including mutual funds and insurance products. Data aggregation tools help advisors gain needed insight to improve decision making and better service client accounts.

With a well-functioning advisor compensation management solution, you can boost advisor productivity, support advisors in the field, ensure accurate compensation and improve advisor satisfaction—all of which serve to help attract and retain top advisor talent. In the section below, we highlight some key ways broker-dealers are using integrated data aggregation and compensation management solutions to address challenges and achieve their goals.

ANSWER FUNDAMENTAL BUSINESS QUESTIONS

Leading-edge compensation management solutions can nowhelp advisors and broker-dealers answer fundamental questions about the business:

Where does my revenue come from?

What is the operating budget for my business and where does my EBIT come from?

Do I spend resources on unprofitable business?

Are my margins in some areas better than others?

What are my choices for compensation?

The Four Ways Broker-Dealers Leverage Integrated Data Aggregation and Advisor Compensation Management to Increase Advisor Productivity and Satisfaction

1. Achieve greater insight through a single client view

Advisors rely on data aggregation tools to improve data accessibility and to create a holistic, 360° view of their clients and their investment history. With efficient data aggregation systems, advisors can instantly identify the allocation of assets under management and locate products that may boost client service, broker-dealer profitability and advisor compensation. If relevant and normalized data is all in one place, advisors don't have to scramble for the information they need to make key decisions about the direction of their practice. Integrated data aggregation systems help advisors immediately understand where to focus time, energy and resources. Although the traditional advisor billed for services against a handful of brokerage accounts, the fastest growth in the advisory space is found where advisors manage and provide advice regarding the client's company 401(k), their annuities at a life insurance carrier and their IRA still custodied with a former employer. For this reason, especially, sophisticated data aggregation tools are more important than ever.

2. Maintain regulatory compliance

Regulations are burdensome because they require compiling data from myriad sources, which is often a manual, error-prone and time-intensive process. But the data aggregation tools associated with a robust compensation management solution can automate the process and drastically improve day-to-day operational efficiency. The broker-dealer middle office can access aggregated, real-time reports and generate detailed audit trails to adhere to changing regulations. An effective advisor compensation management solution can show total and underlying fees at the firm-, advisor- and investor-levels, which helps provide fee transparency for compliance purposes.

3. Accurate compensation tracking and payout

It's probably the most basic fact of business: No one works for free. Broker-dealers must ensure that advisors are paid accurately and on time. As new incentives emerge, and as non-cash and equity compensation structures become more prominent, delivering accurate and timely compensation is not straightforward like it used to be. Leading broker-dealers rely on advisor compensation management solutions to provide real-time compensation and commission tracking, so that advisors may identify exactly what they're owed, and when. Advisors look for accurate benchmarking tools so they can track their quarterly and annual compensation, at a glance. By most measures, confidence in compensation is a key indicator of advisor satisfaction.

4. Support advisors in the field

By precisely tracking sales and compensation, relevant decision-makers can understand investor preferences, trends and behaviors. Using this data, broker-dealers can identify the best product mix, provide regional marketing support and generate more stable revenue streams. In addition, broker-dealers have started to use these solutions to glean valuable insight into advisor performance. Various tools make it possible to zoom into different regions and offices, and even track the performance of individual advisors. Such data can help broker-dealers target specific support for struggling advisors and pair mentors more effectively. With the right data, broker-dealers are much better positioned to understand how, where and to whom valuable resources should be allocated.

TOP CONSIDERATIONS FOR EVALUATING AVAILABLE SOLUTIONS

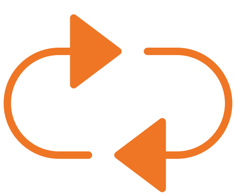
Data aggregation and advisor compensation management solutions can automate, streamline and optimize operations, provide valuable insight for business-critical decision making and ensure timely, accurate compensation. Broker-dealers can leverage advanced solutions to provide needed support, helping advisors increase productivity, improve performance and ultimately increase advisor satisfaction. As part of a broader technology strategy, the right data aggregation and advisor compensation management solution can make all the difference. As you consider various solutions, these are the top considerations when choosing among alternatives:

COMPENSATION MANAGEMENT

Above all, an ideal solution should be precise and agile when handling compensation processing. Among other functions, you should have the ability to support splits and Team Agreements, early payouts, non-cash compensation, clean shares and succession buyout plans. Look for solutions that are flexible enough to support and incentivize new campaigns and revise compensation structures on demand.

ACCOUNT AND TRANSACTION SURVEILLANCE

The top solutions provide tools for identifying, reporting and managing not in good order (NIGO) transactions, as well as licensing and appointment infractions. In addition, top solutions allow account maintenance by the advisor or designated staff and seamlessly integrate with other vendor-driven systems to provide accurate compliance management reports.



INTEGRATED SOLUTION

The best advisor compensation management solutions can seamlessly integrate with your existing middle- and front-office ecosystem, such as CRM and general ledger systems. Simply adding another solution in an ad-hoc way can compound, rather than alleviate, advisor workflow inefficiencies. So, look for systems that are capable of interfacing with existing solutions.

DATA AGGREGATION AND PRODUCT INSIGHT

As broker-dealers try to catch up re-tooling their fund lineup and implementing fee compression, they need more than the performance information from non-proprietary funds on their shelves. To make the best decisions, they need visibility into the underlying fee data. Look for a compensation management solution that can gather timely, accurate data pulled from centralized data sources, such as the SEC's EDGAR system. With advanced data aggregation tools, you can:

- Understand the total cost of investor ownership, including the fees they are billed, as well as the fees the average investor doesn't see (such as mutual fund administrative fees)
- Achieve more accurate account reconciliation and daily reporting
- Shorten the sales cycle by making third-party fee data accessible
- Maintain compliance and transparency with proprietary fee data sourcing, updated daily

MOBILE FUNCTIONALITY

There's no doubt that the mobile devices have truly revolutionized the way we communicate and keep current in the world today. It's no wonder, then, that advisors and their clients expect to interact with each other and their investments in a mobile, feature-rich environment. Although a simple view-only screen may have sufficed in the past, today's advisor expects full functionality across every device. Look for a solution that includes full mobile capability, where the advisor and their client can see the whole picture.

END-TO-END CAPABILITY

**Be sure to look for solutions that do more than solely calculate compensation.
A leading-edge solution should:**

Perform seamless data aggregation

Generate meaningful data insight through effective, easy-to-understand reporting

Allow you to alter benchmarks for advisors, sales managers and compliance

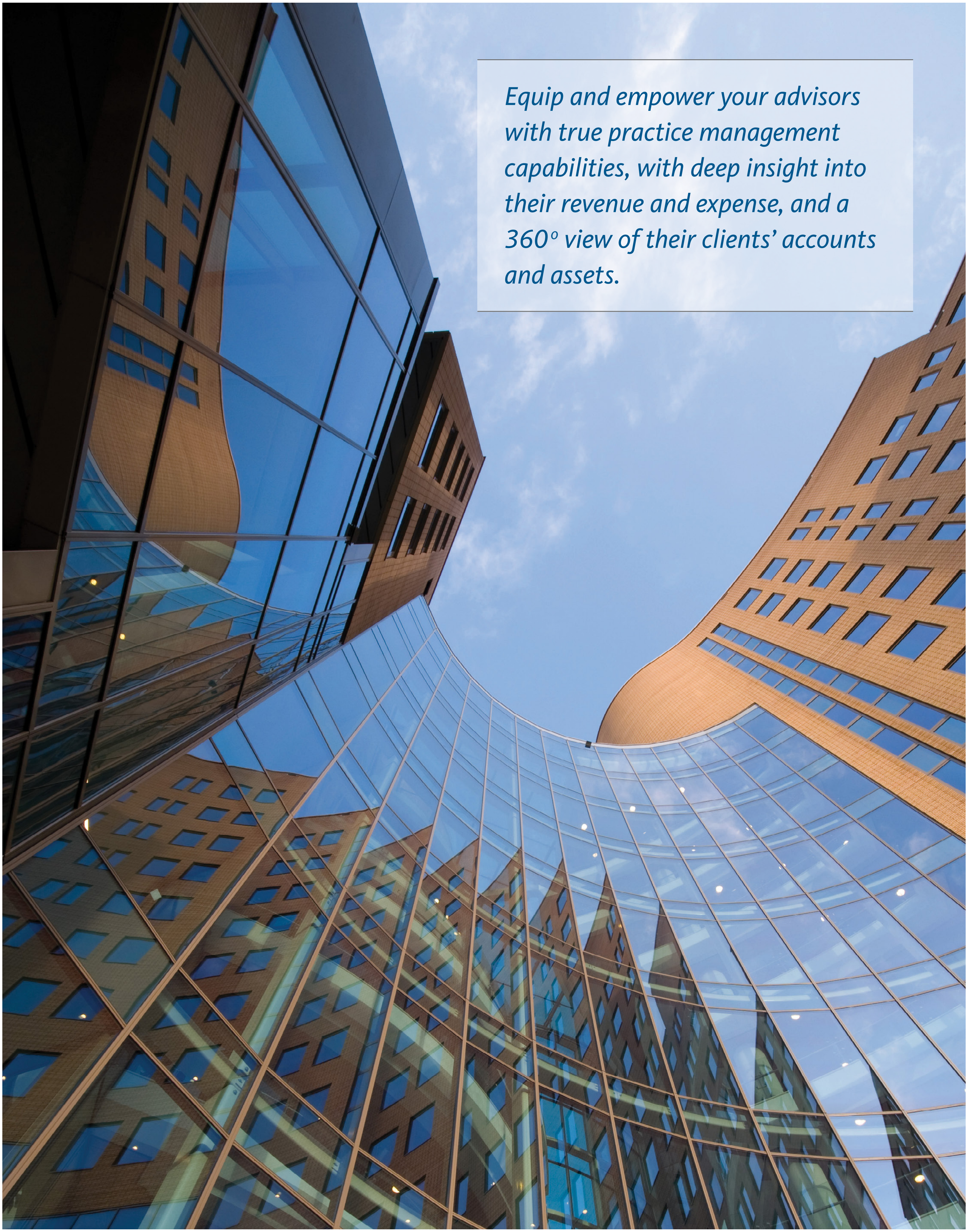
Provide planning tools to evaluate potential changes to advisor compensation arrangements

IMPROVE SUCCESSION PLANNING

Advisor compensation management solutions need to take into account the increased focus on the near and long-term effects of an aging advisor force. The senior advisor can elect to groom a junior advisor to assume the book of business at retirement, sell outright, or leave it to their broker-dealer to determine how to service the book.

Understanding cash flow trends, distinguishing between one-time and recurring revenue, and tools to accurately and seamlessly make the transition are critical value-added components that only a multi-faceted advisor compensation management solution can provide. A comprehensive succession plan permits senior advisors the opportunity to pursue a more gradual transition into retirement while promoting greater continuity for clients.

Continuity is a key aspect of succession planning. For the broker-dealer, the key is to retain the book of business. Clients need to be confident that, no matter what happens to their advisor, there is a plan in place to ensure their assets will be managed seamlessly. Advanced solutions that provide both the incoming and outgoing advisor (as well as the broker-dealer) with a comprehensive and dynamic single view of the business can facilitate a more seamless succession. It can also inspire confidence on the part of the advisor that their clients will remain in good hands, as well as confidence on the part of the client that their financial future remains in good hands.



Equip and empower your advisors with true practice management capabilities, with deep insight into their revenue and expense, and a 360° view of their clients' accounts and assets.

Broadridge, a global Fintech leader with over $4 billion in revenues and part of the S&P 500® Index, provides communications, technology, data and analytics. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

broadridge.com

WM_00046_WP_20

Broadridge®

Ready for Next

Communications
Technology
Data and Analytics